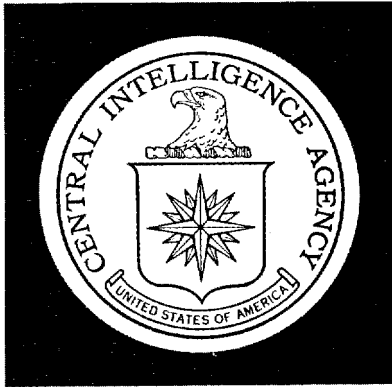


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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

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(Information as of noon EDT, 31 July 1969)

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FAR EAST

Vice President Ky has joined those objecting to President Thieu's 11 July election offer to the Communists; Ky also criticized Thieu in general, as well as the US, before a group of retired generals, who embody important elements in South Vietnamese politics.

Thieu has tried again to soften the impact by claiming the offer was a "tactic" to curry favor with the United States and that it was the maximum concession to try to induce the Communists to negotiate seriously.

The close relationship between Thieu and Prime Minister Huong may be breaking down over Thieu's desire further to politicize the cabinet; Huong prefers a cabinet of technicians.

Communist tacticians are increasingly emphasizing small unit and sapper operations, along with political activity, throughout South Vietnam. These tactics may be related to Hanoi's apparent decision to reduce sharply the number of replacements coming south. Thus the Communists' fall campaign could prove to be little more than an extension of the summer offensive, possibly with some ground strikes against significant targets.

Peking has embarked in recent months on a major domestic propaganda campaign stressing "war preparations" with regard to the Soviet threat. The propaganda, however, has been relatively restrained and stops short of creating war hysteria. There is no evidence to suggest that the Chinese are beginning major military mobilization.

In Laos, the return of Prime Minister Souvanna from a month's vacation in Europe should help dampen political unrest brought on by the loss of Muong Soui. Souvanna and some important military leaders appear resigned to finding a diplomatic rather than a military solution to the continuing heavy Communist military pressure.

South Korean President Pak's surprise call for early passage of a constitutional amendment permitting him to run for a third term has provoked opposition elements within the ruling party to demand a heavy price for their endorsement of Pak's proposal. Pak probably was forced to agree to institute a number of reforms. Despite sizable opposition, the amendment probably has a good chance of passage.

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VIETNAM

Strong adverse reaction to President Thieu's election offer to the Communists on 11 July continued in Saigon during the past week, and Thieu again tried to soften the impact of his proposal before Vietnamese audiences.

Vice President Ky, in a number of speeches to military audiences, stated that Thieu's offer must be the last concession to the Communists and that if it is not accepted Saigon should pull out of the Paris talks. Speaking on 22 July to a group of retired generals--most of whom had participated in the 1963 overthrow of Diem and now are generally antigovernment--Ky criticized both the Saigon government and the US. Ky and the ex-generals embody the strong anti-Communist sentiment manifest among the armed forces, the well-to-do, and the northern Catholics, who are among South Vietnam's most vocal and effective political elements. Any such convocation of retired generals to hear Ky criticize Thieu is almost certainly deeply disturbing to the regime.

Other political leaders have also expressed concern about the effect Thieu's speech had on the general population.

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Thieu again backtracked on his original offer in a speech to a large gathering of senior civil servants on 26 July when he said he "would never agree to let the Communist Party operate in South Vietnam." He further said his offer was a "tactic" to regain favor with US and international public opinion and that it was the maximum concession that would be offered to try to get the Communists to negotiate seriously.

Meanwhile, Thieu has ended his long-standing opposition to politicizing the cabinet. During the past week, he has been heavily

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There is growing evidence that the Communists are putting more emphasis on guerrilla tactics and accompanying political action throughout much of South Vietnam. Communist tacticians are stressing sapper and small-unit military operations which are to be coordinated with

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proselyting and terrorism. This shift in tactics involves the use of assets previously assigned to large-unit warfare.

[redacted]
[redacted] Communist main force units in the Da Nang area [redacted] have been told to rely more heavily upon sapper units in future offensive operations, and a program [redacted] is under way to refit sapper units there and throughout South Vietnam with the latest weaponry.

In III Corps meanwhile, there are indications that the Communists trying to build up their weakened local and guerrilla forces by transferring cadres from the main force units downward. Viet Cong forces in the delta provinces appear to be increasing their use of sapper actions and shellings, particularly against government paramilitary forces in the countryside. Communist propagandists are also boasting of the strength and exploits of their guerrilla forces in the cities.

This shift in Communist tactics in South Vietnam may be related to an evolving Hanoi

strategy which evidently calls for a sharp decline in the number of replacements coming from North Vietnam during the next few months at least. Greater use of guerrilla warfare could help reduce Communist battlefield losses in the coming months. Additionally, intelligence reports suggest that Communist preparations are pointed toward a period of greatly reduced conventional military activity and of a more intensive paramilitary struggle in the provinces.

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Communist military strategy in the near-term is likely to follow the standards set forth by North Vietnam's Defense Minister General Giap late last June. Giap called for the maintenance of steady pressure on the allies by conducting small-unit attacks even against larger targets, by economic use of ammunition, and conservation of strength in general for the long haul. The Communists' fall campaign could therefore prove to be little more than an extension of their summer offensive, characterized by numerous but light shellings and possibly some ground strikes at urban centers and allied military installations should political considerations so dictate. [redacted]

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PEKING'S WAR PROPAGANDA SHOWS RESTRAINT

"War preparations" have become a major domestic propaganda theme in recent months but there is no available evidence that the Chinese are beginning military mobilization.

Peking apparently continues to believe that the recent border incidents with the Soviets justify giving high priority to military preparedness, but the regime's propaganda has been restrained and stops short of creating war hysteria. Moreover, many aspects of the war readiness propaganda are obviously designed to further important domestic goals. Appeals to prepare for war are repeatedly linked to the need to restore political unity and discipline, to stimulate industrial and agricultural production, and to restrict consumer consumption.

Radiobroadcasts from provinces in the border regions are predictably most alarmist regarding the Soviet threat. Heilungkiang radio recently went so far as to cite "Soviet revisionism" as China's "principal and most dangerous enemy."

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[redacted] the central leadership may be preparing to place more emphasis on national defense industries and perhaps has reached agreements to strengthen certain branches of the armed forces. There is little evidence to support this speculation, although Premier Chou En-lai reportedly delivered a speech after the ninth party congress in which he gave first priority to defense-related production.

Even Soviet propaganda is downplaying war preparations by Peking, treating these as an artificially created tension to divert the Chinese people from dissatisfaction with Mao's rule and with ever increasing consumer restrictions. The Soviets are also using the theme to buttress their long-standing allegations concerning the irresponsibility and adventurism of China's leaders. An article in the 18 July issue of Komsomolskaya Pravda, for instance, argued that the present "war hysteria" stems partly from the Maoist belief that war is a "historical necessity," and charges that practically all of the country's resources have been thrown into militarization, casting additional burdens on the Chinese people.

On the whole, Peking appears to be preparing primarily for an extended period of heightened tension with Moscow rather than for any imminent Soviet military action. [redacted] 25X1

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COMMUNISTS IN LAOS KEEP UP THEIR MILITARY PRESSURE

Although no major Communist attacks have taken place over the past several weeks, the enemy does not seem ready yet to end the offensive in north Laos.

In the Plaine des Jarres area, Communist forces continue to probe government bases south of Muong Soui. Communist forces, taking advantage of poor flying weather, have also made several attempts to overrun progovernment outposts along the southern edge of the Plaine. Government patrols have reported a recent enemy build-up in this area, in what could be preparation for a thrust at the

Meo guerrilla headquarters at Sam Thong.

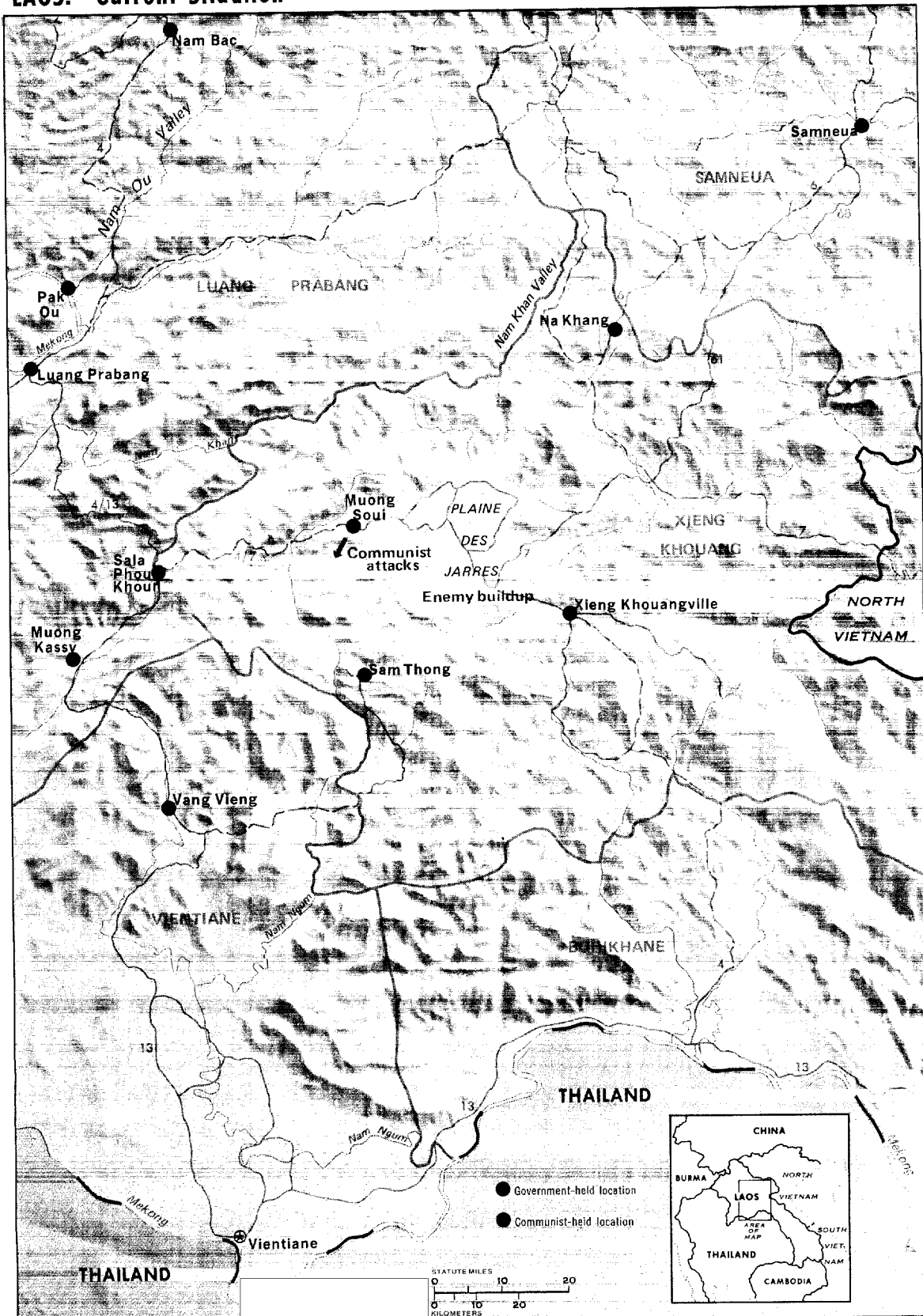
The return of Prime Minister Souvanna from a month-long vacation should help dampen political unrest within the civilian and military establishment that had been brought on by the Communist seizure of Muong Soui. Although Souvanna's hopes for an early political solution to the Lao question have been dashed by the Communist offensive, the prime minister and some important military leaders appear resigned to salvaging the present situation by diplomatic rather than military means.

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LAOS: Current Situation



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SOUTH KOREAN PRESIDENT ADAMANT ON THIRD TERM AMENDMENT

President Pak Chong-hui, in a surprise announcement to the nation on 24 July, committed his political prestige to the early adoption of a constitutional amendment permitting him to run for a third term in 1971. Pak emphasized that he regarded passage of the amendment to be a matter of public confidence in him and his policies. By threatening to "immediately leave office" if the amendment is rejected, he has confronted the electorate with a choice between his protracted rule and the specter of political instability.

Growing public sentiment against a third term probably influenced Pak to advance the timetable for submitting the amendment, which had been scheduled for legislative consideration about the first of the new year. The timing of the announcement, however, appears to have been largely determined by Pak's anger over recent opposition attacks on his personal ambitions and criticism of government corruption.

Pak seems confident that he can get the necessary two-thirds majority to push the amendment rapidly through the National Assembly, but he appears still to lack some votes. Since the 24 July announcement he has been meeting with Kim Chong-pil, the leader of the government party holdouts against the amendment, presumably to work out the conditions for Kim's support which could be onerous for Pak to accept. At a party caucus on 29 July the dissidents demanded a heavy price for endorsing a res-

olution calling for a constitutional amendment without committing themselves to vote for it. They may not have received all they asked for, but their demands included assurances that Pak will make extensive changes in the party and government leadership restrictions on the involvement of the security apparatus in domestic political affairs and a crackdown on government corruption.

The regime has indicated that it intends to introduce the amendment in the National Assembly early this month. The assembly will then have a minimum of 30 days in which to act on the measure, after which it must be submitted to a national referendum. This may be held any time between seven and 150 days after the amendment clears the assembly.

The leader of the opposition party, while expressing the hope that enough "courageous" assemblymen will hold firm to block the amendment, has indicated that the party's main effort will be directed toward defeating the referendum. Korea's overwhelmingly rural electorate, which tends to accept whatever regime is in power, makes it unlikely that the opposition's tactics will be successful. A strong appeal to the voters to defeat the amendment, however, could generate violence in the cities where anti-third term sentiment is centered. The danger of large-scale disturbances will be particularly great if the referendum is delayed until after the students return to school in about mid-September.

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INDONESIA SEEKS ECONOMIC GROWTH

Djakarta's success in stabilizing the currency by a tight money policy has had the effect of stagnating the economy. The government apparently no longer fears a resurgence of inflation, and now is launching more flexible financial measures in order to get the economy moving. A number of other basic steps will be required, however, if there is to be any substantial progress.

As a means of speeding economic development the government intends to reduce interest rates, expand credit for production projects, accelerate government spending for development purposes, and step up government purchases of rice.

Interest rates on bank deposits and loans now are being reduced by about one-half to move money directly into agriculture and other essential production. Rates paid on deposits had been raised a year ago to a maximum of six percent per month to stimulate savings and to get "hot" money repatriated to Indonesia. Money flowed into the banks--time deposits alone increased by 50 percent per month after September. The central bank now is expanding the amount of government credit available to private businessmen producing for export and other priority sectors.

Budget funds are to be dispersed faster by cutting red tape. During the quarter that ended 30 June, delays had held up more than two thirds of the funds available in the development budget. According to the

Ministry of Finance, over 2,500 projects in agriculture, education, and public works have been approved but problems in supervising the use of the money have prevented its release. Domestic private investment is to be encouraged by granting more tax holidays. The cabinet instructed the minister of finance to speed up his decision on applicants eligible for tax concessions.

In order to put more money in the hands of farmers and improve the agricultural market, government purchases of rice are to be pushed immediately to include the full amount authorized for the year. This move will encourage agricultural and other domestic consumer production.

The domestic price level has been reasonably stable since mid-1968, mainly due to adequate supplies of rice that are likely to continue to be available. While the expansionary measures could bring inflationary pressures, they are not likely to trigger a price spiral.

These measures to expand the economy are necessary as Indonesia moves from economic stabilization to development. Furthermore, they will have to be followed by other changes, such as tax reform, reorganization of government enterprises, and improvements within the agricultural sector. In addition the government will have to streamline the implementation and management of its Five-Year Economic Development Plan now under way.

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EUROPE

The USSR's concern about China has prompted speculation that Moscow is in a mood to reduce tensions in Western Europe, a notion Moscow is doing nothing to discourage. Soviet leaders displayed this "detente diplomacy" in their recent talks with Belgium's Foreign Minister Harmel, the first high-level official of a NATO country to visit Moscow this year. Both Kosygin and Gromyko studiously appeared responsive to Harmel's views but were ambiguous when he got to specifics. In short, they showed interest in a dialogue but no eagerness to resolve outstanding European issues, an impression Kosygin also gave in a talk with the West German ambassador last week.

Moscow has yet to give form and substance to its call for a system of collective security in Asia. The Soviets evidently are still testing the waters. Neither Kosygin nor Gromyko clarified the concept in response to Harmel's questions.

Czechoslovak party boss Husak made a sudden visit to Bulgaria probably to give the appearance of normal relations between the two countries. The visit also fits in with Husak's determination to set a tone of orthodoxy at home in the face of growing popular disillusion with his leadership. The first political arrests are being made in Czechoslovakia in preparation for the first anniversary of the invasion on 20 August.

East Germany's Walter Ulbricht apparently has recovered from his recent illness. He met this week with two Soviet officials and with Avery Brundage, president of the International Olympic Committee. He also attended a two-day plenary meeting of the party's central committee.

An agreement on cultural and scientific cooperation between West Germany and Yugoslavia was signed in Bonn this week by the foreign ministers of the two countries. Besides cultural and scientific exchanges, each side will set up two information centers in the other's country. It was the first visit of a Yugoslav foreign minister to Bonn.

In Italy, Premier Rumor is trying to establish a minority Christian Democratic government with assurances of parliamentary support from both right-wing and left-wing Socialist parties. If he succeeds, a resumption of debate on the formation of a new center-left government would be likely in the fall.

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BREZHNEV ACKNOWLEDGES DIFFERENCES IN COMMUNIST MOVEMENT

In a recent magazine article, Soviet party chief Brezhnev tried to put the best face possible on the limited accomplishments of the world Communist conference, while acknowledging some differences within the movement.

Writing in the August issue of Problems of Peace and Socialism, in order to reach that journal's international Communist readership, Brezhnev appealed to the Communist movement's broad spectrum of opinion. At the same time, he upheld Moscow's leadership of the movement and the legitimacy of such controversial issues as limited sovereignty. He warned that any deviation from the Marxist-Leninist path--whether to the right or to the left--would undermine the Communists' efforts and strengthen the forces of imperialism.

Brezhnev admitted that Moscow encountered some "deviation" at the conference and that the "right answers" were not given to all issues. He became the first Soviet leader to acknowledge publicly that there was opposition to the Soviet occupation of Czechoslovakia within the Communist movement. Brezhnev also conceded that attendance at the conference was not what it should have been, that some parties signed the conference's final document with "reservations," and several others signed only "in part." He did

not mention that five parties refused to sign at all, and that those parties in complete agreement with the document represented only one third of the world's Communist parties.

Brezhnev was generous toward those dissidents he described as being "temporarily deluded." He noted that in such cases "comradely, friendly polemics" were useful, as well as "certain restraint." There were some harsh words for China, but Brezhnev stressed that the Soviet position was one of "calm and restraint." He added that Moscow would not be "provoked into thoughtless acts of any kind," and was taking into account the long-term interests of both the Soviet and Chinese peoples. In view of recent harsh statements by Soviet leaders regarding China, Brezhnev's attempt at striking a more moderate tone at least raises the possibility that the Soviets may make some reduction in their polemical exchanges with Peking.

In an apparent effort to present the Soviet party as the forward-looking and "progressive" leader of the international Communist movement, Brezhnev devoted a short section of his article to domestic policies. He referred briefly to the Soviet economic reform which he characterized as still unfinished, but "highly encouraging" thus far. He asserted that work now is being done on "systematizing" unspecified recent changes in

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Soviet society in a new constitution--a project which has rarely been mentioned in recent years--and he pointed to the draft kolkhoz charter now under consideration. Despite his glanc-

ing reference to the 20th party congress--a landmark for "liberal" Communists--there was little in his pallid account to inspire enthusiasm for the Soviet model. [redacted]

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ROMANIAN PARTY CONGRESS WILL BE CEAUSESCU'S SHOW

The Romanian Communist Party will open its 10th congress on 6 August in the afterglow of President Nixon's visit and in the presence of foreign Communist luminaries representing every variety of contemporary Communist practice. The congress was postponed from 4 until 6 August to provide a more neutral atmosphere for both the presidential visit and the foreign Communist delegations. It will be party and state chief Ceausescu's show and one at which few, if any, major surprises are expected.

The Russians and Chinese both accepted invitations; Moscow and Peking apparently bowed to Romania's condition that there be no polemics. Bucharest prevented an outbreak of Sino-Soviet polemics at its party congress in 1965 and probably will succeed in doing so again. This time, as an added precaution, the Romanians may borrow the technique the Yugoslavs used at their party congress, allowing only the distribution of foreign delegates' statements instead of permitting speeches from the floor.

The congress will stress the correctness of Romania's foreign policy and approach to interparty relations. Domestically, the theses for the congress offer few surprises, particularly with respect to the economy. There will be nods toward expanding "socialist democracy" but only in the context of the party's monopoly control of the state.

Ceausescu will maintain his tight control over the party, but at the same time will foster a sense of broader participation among the party's rank and file. In keeping with the party's fast growth since 1965, membership of the party's central committee and central auditing commission probably will be increased--from 219 to about 300--and a multiple candidate list will be used to elect new members instead of the usual single slate. This new election procedure, a superficial bow to "socialist democracy," will result in the promotion of numerous Ceausescu proteges. [redacted]

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CZECHOSLOVAK ANTIPATHY TO SOVIETS AND REGIME RISES

Czechoslovak authorities are worried about the population's increasing passive resistance and are deeply concerned about a renewal of scattered anti-Soviet violence.

As the first anniversary of the invasion on 20 August approaches, the population is being bombarded with anonymous handbills calling for demonstrations against the government and the Russians. The Husak leadership, under Soviet pressures to appear "orthodox," has no choice but to denounce any calls for commemorations. It blames the unrest on the liberals who were in power last year, ignoring the massive popular support the appeals for resistance still evoke. Rude Pravo's publication on 29 July of the first forthright justification for the invasion will only serve to deepen the gulf between the people and the party.

Tempers are short. On 29 July, Czech workers reportedly stoned a candidate member of the Soviet politburo, when he tried to visit their plant. At another key plant he was greeted with empty workbenches. The rock-throwing episode is the most serious publicized incident since the hockey riots in late March which led to the ouster of Dubcek.

News of other incidents has been repressed.

Although Moscow has been silent so far, Soviet patience must be strained and Husak's domestic enemies undoubtedly are watching closely for any sign of Soviet dissatisfaction with his leadership.

The government's situation is worsened by the workers' sullenness, which has produced work slowdowns on such a scale that they have been a major factor in the poor economic performance during 1969. Productivity has not increased according to plan, and rail transport is chaotic. Consumers have continued their buying spree. Food shortages, especially of meat and eggs, have worsened in recent weeks. Czechoslovakia's allies have failed to deliver some items, and there are delays in transloading Soviet supplies at the border, in part caused by slowdowns of Czech rail workers. The supply situation is not likely to improve much during the next few months.

The party has expressed dissatisfaction with the lack of urgency with which the federal and state governments are tackling these problems and is introducing economic stabilization measures such as price controls. Premier Cernik is the major scapegoat in this situation, and he may lose his position.

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FRENCH GOVERNMENT READIES SOCIAL ACTION PROGRAM

Prime Minister Chaban-Delmas has announced that the government is preparing a "social action program" designed to improve the social-economic climate and promote cooperation between the various sectors of the French economy. The details will not be announced until September when the National Assembly will be called into special session, but the general plan is to institutionalize a permanent dialogue between the government and major economic interest groups.

Chaban, acutely aware of the prospect of a tense social climate in the fall, has just completed three weeks of consultations with labor, management, retailers, and farm groups. All are concerned about their economic future, and especially about the possibility of a decline in real purchasing power and the general standard of living.

As a part of the new program, the government has decided to follow closely the recommendations of the EC Commission with respect to limiting public expenditures, controlling credit expansion, and maintaining "measured" growth of wages and salary. By adopting these guidelines, the government is attempting to stem inflation and restore confidence in the franc without resorting to a drastic austerity policy, with the social unrest that might ensue.

Chaban's declaration, coming as it did during the traditional summer lull in active politics, is a measure of the new government's overriding concern with domestic problems, especially in the financial and economic fields. President Pompidou and Chaban obviously see the need to build up the government's public image as reasonable, confident, and above all, flexible.

Much of the reaction to the "social action program" has been critical. Some commentators in the financial press have criticized Chaban for not spelling out in more detail his proposal for institutionalized cooperation between economic groups. All the major unions expressed reservations and warned workers to be prepared to defend their interests if the new program proves unsatisfactory.

In his first substantive talks with Ambassador Shriver, President Pompidou also showed himself to be deeply concerned about financial and economic questions, especially the problem of international monetary stability. Far from being the dogmatist that De Gaulle was on the subject, Pompidou impressed Shriver as being more like a "Rothschild banker" than a Sorbonne professor of economics. In all matters, he exhibited more flexibility and pragmatism than his predecessor.

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MIDDLE EAST - AFRICA

The military situation along the Suez Canal deteriorated further during the past week as Israel resorted to more aggressive aerial tactics in an attempt to "educate" Egypt regarding the unproductiveness of military action along the waterway. The Egyptians apparently failed to get the message, however, and responded with some relatively successful bombing runs of their own.

General Odd Bull, chief of the UN observers in the area, is concerned about the danger posed by the rising tempo of military activity and has ordered the temporary closing of two of the 18 UN posts along the canal. The UN political adviser on the scene is urging that all observers be withdrawn, but the seven contributing nations do not yet seem anxious to pull out.

Pakistan's President Yahya Khan, in a nationwide speech on 28 July, set forth a tentative program leading to an end of his martial law administration but implied that failure to resolve outstanding political problems could delay elections. Any solution to Pakistan's emotion-laden domestic issues could take many months. Indefinite prolongation of the process could lead to renewed troubles in East Pakistan and even arouse antagonism within the military.

In Nigeria, the small Biafran Air Force stepped up operations last week, destroying an oil pumping station in federal-held territory. Meanwhile, delegations from both sides in the civil war are meeting in Geneva on the relief issue; delegations are also present in Uganda, where Pope Paul is attempting to arrange peace negotiations during his visit. Prospects for any progress on either issue are not encouraging.

This week's UN Security Council censure of Portugal for recent Zambian border attacks is essentially what Lusaka hoped for—further pressure on Lisbon to restrain its counterinsurgency forces in Mozambique. For their part, the Portuguese are concerned that Zambia's recourse to the UN rather than to established bilateral procedures indicates less interest in reducing border tensions.

Morocco's King Hassan has postponed his scheduled early August visit to Algeria

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SUEZ CANAL SITUATION DETERIORATES FURTHER

The military situation along the Suez Canal deteriorated further during the past week as Israel attempted to "educate" Egypt regarding the unproductiveness of military action along the waterway.

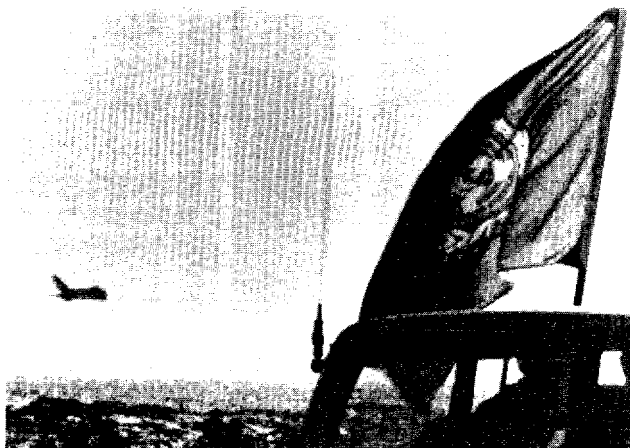
In the face of mounting pressure from Egyptian artillery barrages and commando raids along the Suez Canal, the Israelis resorted to more aggressive aerial tactics. The east bank of the canal is defended only by a screening force of some 300 men, who are outclassed ten-to-one in terms of firepower. Israel's main Sinai force of 15,000-20,000 men is deployed out of artillery range but close enough to the canal to be moved up rapidly if needed. Rather than bring up artillery for cross-canal duels, however, the Israelis opted to attack Egyptian gun positions with fighter-bombers in the hope that this would calm Cairo's ardor.

The Egyptians responded by staging some successful bombing runs of their own against Israeli gun positions. Egyptian pilots, for the first time since the 1967 war, downed an Israeli plane in air-to-air combat on 20 July.

Continued air strikes may be costly for the Egyptians,

however. Since the first of July, they have reportedly lost 18 planes (in contrast to two for the Israelis). If such losses continue, the Egyptians may be reluctant to send large numbers of aircraft over Israeli-held territory even though such attacks probably appeal to a public hungry for evidence that Egyptian forces are carrying the war to the enemy. Instead, Cairo may lean more heavily on artillery barrages and possibly a resumption of commando actions to maintain pressure on the Israelis.

Israeli civil and military leaders are emphasizing that the objective of their new tactic--the use of aircraft on the Egyptian front--is to obtain quiet



Egyptian MIG Passes UN Observer Vehicle

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along the cease-fire line. They flatly deny they are escalating the fighting and claim they would stop if Cairo did. Implicit in this new tactic, though, is Israel's concern that Nasir is becoming over-confident and must be solidly slapped down before he attempts something that might be more costly to the Israelis.

Whatever the outcome, the Israelis--although worried about their own aircraft losses--are relishing the present opportunity to destroy quantities of Cairo's Soviet-supplied equipment. Some of them probably even hope that the impact of the attacks will not only bring a cease-fire, but perhaps also a new Egyptian leader, a hope apparently without basis. The Egyptian military the only real threat to Nasir, appears to identify more closely

with him now than it has for some time.

* * * *

In Lebanon, meanwhile, President Hilu now believes that he will soon have to alter his opposition to a fedayeen presence in the country.

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Although Hilu would be content to let the government continue without a cabinet, he sees Lebanon as being swept along by uncontrollable events in the Middle East that will force him to change his stance. The President therefore thinks that it will be necessary to reach some sort of compromise with Prime Minister - designate Karami, who believes that the only possible agreement with the fedayeen would be to recognize their presence in the country and allow them to conduct limited operations there. Hilu anticipates that the whole issue will come to a head this summer because the fedayeen will not be willing to endure a winter of inactivity in their present camps.

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THE TWO YEMENS MUDDLE ALONG

Continuing along their disparate ways, Southern Yemen is bearing up under its new leftist regime while the Yemen Arab Republic to the north is becoming ever more conservative.

The new leftist government in Southern Yemen has continued to project a relatively moderate image since coming to power on 22 June. Many residents of Aden are beginning to believe the regime is no worse than the previous one, but tribal elements outside the capital still distrust the new rulers, who are viewed as "Communists." The army appears to retain considerable autonomy, [REDACTED]

Although preparations now are being made for the fifth NLF congress, it will probably not be convened until October. This delay was engineered by Abdul Fatah Ismail, the secretary general of the NLF, so he can develop support against attempts by the ousted president and prime minister to stage a comeback. Ismail has apparently been offering ambassadorial posts to some members of the previous government to keep them from cooperating with the ousted leaders. [REDACTED]

[REDACTED] divisions are growing between the "moderates" and the "extremists" within the government, however, and this could eventually result in further changes in the leadership.

To the north in the Yemen Arab Republic, meanwhile, the formation of a new government has been entrusted to the former Yemeni ambassador to the USSR, Muhsin al-Ayni. [REDACTED]

The assassination of the top royalist commander on 25 July will further erode the royalist military position, which has been gradually weakening for some time.

The republican regime has become more and more conservative in recent months, and has been attempting to strengthen ties with the West as those with the Communist countries weakened. The first benefit of recently resumed relations with West Germany arrived in the Yemen on 27 July when a cargo of foodstuffs was delivered to the port of Hudaydah. [REDACTED]

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PAKISTANI GOVERNMENT REAFFIRMS PLEDGE OF CIVILIAN RULE

President Yahya Khan has set forth a tentative program for an end of Pakistan's martial law administration while at the same time implying that elections could be delayed indefinitely by a failure to resolve outstanding political problems.

In a nationwide speech on 28 July, Yahya revealed several major policy decisions directed toward the eventual restoration of non-military rule. After claiming that most civilian leaders agreed that a firm political foundation should be created before full party activity could be resumed, Yahya announced permission for working committee meetings and conventions, but continued the prohibition on mass public gatherings.

The President also disclosed that he would allow greater public participation in his administration by appointing a civilian advisory council, but did not name the new advisers. Yahya cautioned, however, that the martial law character of his administration would remain. It is not yet clear whether the three deputy martial law administrators will continue as a top-level inner cabinet or will return full-time to their military duties. Yahya presumably intends to stay on as president until after elections.

Yahya did not set forth a firm timetable for elections, but named a chief election commissioner, and said that preparations for elections should not take more than 18 months--after a new constitutional

framework is established. He explained that such controversial issues as the constitutional basis for elections, the extent of regional autonomy, and the basis for allocating seats in a central parliament would all have to be resolved first. If no consensus could be reached on these matters, he warned, "I may have to go to the nation to obtain its verdict." Presumably, this means resort to a national referendum on solutions proposed by the martial law government.

Yahya's determination to solve these emotion-laden issues before holding elections is directly opposed to the views held by most Pakistani politicians, who advocate elections as soon as possible, after which other problems can be resolved. Moreover, no matter how achieved, the final formulation of acceptable solutions could take months--even years--bringing up the possibility that martial law may continue indefinitely. Not only could such a prospect lead to renewed civil disturbances in East Pakistan, where the present government is regarded as little more than alien rule, but it could even arouse antagonism from within the military.

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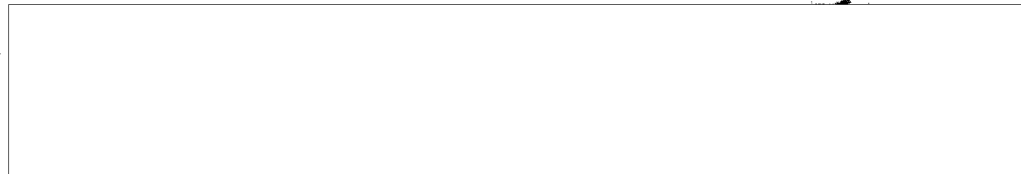
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WESTERN HEMISPHERE

El Salvador's agreement early this week to withdraw its troops from Honduras has at least temporarily eased tensions between the two countries. Considerable difficulties are likely to be encountered in establishing a line between the two sides, however, because the border is undefined through the remote mountain areas.

For some unexplained reason, Cuban Premier Fidel Castro did not give his traditional speech on 26 July—the anniversary of the attack on the Moncada barracks in 1953. His failure to speak was even more strange in view of the presence in Havana of a fleet of Soviet warships on a one-week goodwill visit. Castro did, however, spend four hours aboard the fleet's flagship on 25 July and led 760 Soviet officers and seamen on a cane-cutting expedition the following day. The fleet sailed into the Gulf of Mexico on 27 July.

In contrast to last year, youths invited to Cuba for a month or two of political indoctrination and agricultural work this summer have come from the US and Eastern Europe rather than Western Europe. The Cubans apparently do not want a repetition of 1968 when the novel dress and antics of young people (mostly hippies) from West European countries caused one shocked observer to ask, "who is subverting whom?"



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Guyana's Prime Minister Burnham lost an old antagonist this week when Peter D'Aguiar, his conservative, one-time coalition partner, withdrew from active politics. The two men never see eye-to-eye on government policy, and only their mutual fear of Communist opposition leader Cheddi Jagan kept their coalition together during the crucial period when Guyana was first learning to operate as an independent country. D'Aguiar's departure will seriously weaken his small United Force Party and will accelerate the polarization of political forces between Burnham and Jagan, who has recently made it clear that his party is a member of the "Communist family."

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ARGENTINA AND BRAZIL INTERESTED IN WEST EUROPEAN ARMS

Most of the major countries of Latin America are concerned about the continuing deterioration of their military equipment, especially tactical aircraft, armored vehicles, and combat ships, and have prepared programs to replace obsolete items with more modern material. Argentina has already obtained some important military equipment from various European suppliers, and there is an increasing likelihood that Brazil will turn to this source.

Although the primary reason for buying modern military equipment is to strengthen the armed forces in their role of combating internal and foreign subversion, the psychological and symbolic value of a modern military establishment is an underlying motive. The difficulty of maintaining obsolete equipment of World War II vintage, and the increasing problems of attracting young men to a military career in competition with more remunerative opportunities are other factors leading service commanders to press for the acquisition of up-to-date arms.

The "European Plan," implemented since 1966 under Argentine President Ongania, is the most carefully prepared program of military modernization in Latin America. The plan includes some purchases in Europe, and encouragement of European arms producers to assemble part of this

equipment in Argentina. Ultimately the country is expected to attain self-sufficiency in this field, and to sell equipment to other Latin American nations.

Under the "European Plan," the Argentine Navy obtained a reconditioned aircraft carrier from the Netherlands, six reconditioned minesweepers and minehunters from the UK, and six Aeromacchi MB326 jet trainer/attack aircraft from Italy. The defense minister announced last March that Argentina had decided to obtain two 1,100-ton submarines from West Germany, with the components to be assembled in Argentina. The navy had expressed considerable interest in acquiring British "Leander" class frigates, but recently it has concentrated on negotiations for two British Type-42 destroyers equipped with sea-to-air guided missiles. One would be constructed in the UK and the other in Argentine yards.

The Argentine Air Force has ordered 12 reconditioned Canberra jet bombers from Great Britain for delivery in 1970. Last November the air force signed a contract for 14 French Mirage III supersonic trainers and interceptors. The package, valued at over \$40 million, includes fittings for guided missiles, bombs, and rocket launchers, and the French agreed to authorize the sale of these weapons as they are required. Ongania has put off ratifying this contract,

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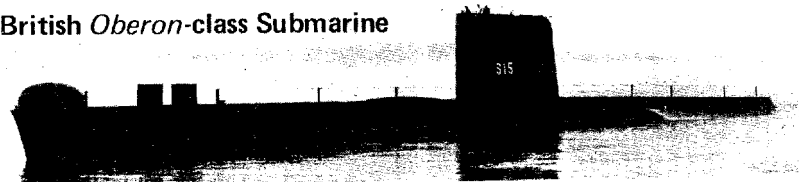
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Western European Military Equipment Being Offered to Latin American Nations

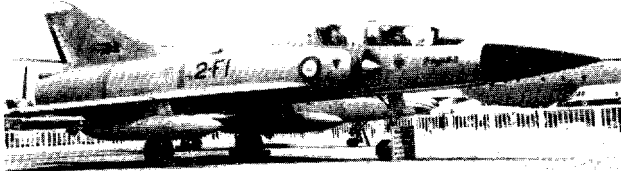
British *Leander*-class Frigate



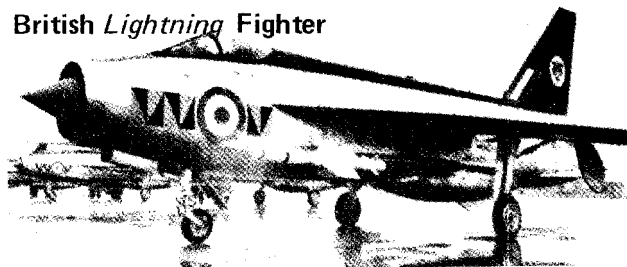
British *Oberon*-class Submarine



French *Mirage III* Fighter



British *Lightning* Fighter



Italian Aeromacchi MB.326 Attack Aircraft



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probably because he believes that such a major outlay could have adverse effects on his economic austerity program and might damage the military's public image.

Brazil has also demonstrated an interest in European equipment but financing problems and the likelihood of US "sanctions" under the provisions of the Foreign Assistance Act have so far delayed major purchases.

Like Argentina, Brazil hopes that while modernizing its armed forces it can also broaden its industrial base by arranging to assemble some of the equipment in its own factories. One step in this direction was made last April, when a contract for West German minesweepers provided that two of the four would be constructed in Brazil. Additional ones would be built there when the Brazilian yards have been expanded.

The navy also wants new destroyers or frigates and submarines, and has examined ships manufactured by West Germany, France, the US and the UK. In April the navy vice chief of staff signed a declaration of intent to buy two British "Oberon" class submarines, and a formal contract is likely to be signed

when agreement is reached on financing of the approximately \$31-million package. The Brazilians are seeking US financing for the construction of five or six destroyer escorts here and in Brazil; if they are unsuccessful their first alternative will probably be the British "Leander" class frigate.

The Brazilian Air Force for more than two years conducted discussions with the French concerning the Mirage III, but these have not culminated in a contract.

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Italy has stepped up its campaign to convince the Brazilians that its Aeromacchi MB326 aircraft are superior to the trainers offered by the British.

Argentina and Brazil closely watch each other's military acquisitions and the purchase of advanced arms such as the Mirage or missile-equipped frigates by one would strongly influence the other to move rapidly to obtain comparable equipment. An influential Rio de Janeiro newspaper recently editorialized that Brazil could not possibly accept inferiority to Argentina with respect to military power.

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PERUVIAN PRESIDENT CHARTS REFORM COURSE

President Juan Velasco, in his independence day speech on 28 July, sought to define the "nationalist and revolutionary" orientation of the military government and to outline some of its plans for the future. He stated pointedly that the government proposes "to change the socioeconomic order in Peru... in a radical manner." The objective: "to create a new and just social order." Finance Minister Morales Bermudez on a trip to Paris, stated that the armed forces will remain in power "until the middle of the next decade."

The President described the recently promulgated Agrarian Reform Law as "the first structural transformation undertaken by any government in our country." He went on to catalogue a number of other measures the government intends to institute in the coming months to complement that law and to permit an integrated approach to a national development. These include tax reform, credit reform, and increased state intervention in such industries as fishing and mining. He said the Peruvian telecommunications system would be "progressively nationalized," a move that would affect the Peruvian subsidiary of the International Telephone and Telegraph Company. He also revealed that the government intends to change the system of municipal government and that it will promulgate a new and "modern" national constitution.

Velasco sought to reassure the Peruvian business community

that the government's plans do not imply an attack on private property--"except in those cases called for in the Agrarian Reform Law." He did state that the government intends to promote profit sharing by the workers in private enterprise as part of a "gradual process" of "business reform." The total impact of the speech will further alarm most Peruvian businessmen and perhaps many present and potential foreign investors.

It was a highly nationalistic speech, stressing Peru's new-found "independence" of the United States. Velasco broke no new ground, however, in his references to the principal current irritants in US-Peru relations--the petroleum company problem and Peru's claim to a 200-mile territorial sea. His speech appeared to have opened no new doors in any meaningful steps forward.

Velasco was almost defensive in saying "this is not a Marxist revolution...we are not going to create a Communist-type society."

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The regular Peruvian Communist party, meanwhile, may be

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able to benefit from the disruptions caused by the government's reform measures. The Communists have recently been making substantial gains in the labor movement and the Communist-con-

trolled labor confederation now hopes to hold a conference of Latin American labor leaders, ostensibly in support of the government's program. [REDACTED]

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PRESIDENTIAL CANDIDACIES AROUSE COLOMBIAN POLITICIANS

Normally staid Colombian politics are beginning to liven up as the country prepares to celebrate 150 years of independence next week, and politicians fail to agree on a presidential candidate.

President Lleras is impatient with the Conservative party's failure to unite all its factions behind one candidate for its turn at the presidency from 1970 to 1974. [REDACTED]

Lleras' first choice is Ambassador to the US Misael Pastrana, a Conservative committed to the President's extensive economic and political reform program.

Lleras' penchant for dominating the scene when lesser men shilly shally is again causing dissatisfaction among some Liberal politicians. They feel that the party directorate is too submissive to Lleras, particularly in dealings with the Conservatives over selection of a candidate. These Lib-

erals, chiefly legislators, look to the return of Ambassador to the UN Julio Cesar Turbay in August to force a change in the party leadership. Turbay is one of Lleras' chief rivals and both men are anxious to maintain their political influence with an eye to 1974 presidential elections.

Former dictator Rojas Pinilla's drive for the presidency will be helped if the coalition does not solve its difficulties. Betancur's growing support from labor, youth, and other groups dissatisfied with the coalition reduce the prospect of his withdrawal from the race, although he appears sensitive to charges that his independent candidacy helps Rojas. The latter's henchmen are already organizing [REDACTED]

The presence of Venezuelan President Caldera and of representatives to the Latin American Parliamentary Congress for the independence celebrations will dominate the stage in Bogota next week, but behind the scenes political maneuvering seems likely to increase. [REDACTED]

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EL SALVADOR-HONDURAS CONFLICT EASES

Under the threat of economic sanctions by the OAS, El Salvador has agreed to withdraw its troops from Honduran territory. The prospects for a peaceful settlement of the conflict have thereby been improved, but not assured.

Salvadoran claims of a military victory in the field and a diplomatic triumph in the OAS are further enraging the already hostile Honduran public. Hondurans suspect that economic interests have played a large role in preventing condemnation of the long intransigent Salvadoran stand and in bypassing the application of sanctions. Honduras is holding firm to its rights under the Rio Treaty and refuses to discuss remaining OAS resolutions until all Salvadoran troops have left.

Actual troop movement out of Honduras is expected soon after OAS observer teams arrive to inspect the condition of the area to be released. Serious new obstacles to implementation of OAS resolutions may arise from this process.

villages have been pillaged by Salvadoran forces and UNCODED:he populace has fled. UNCODED a dangerous mood is likely to develop. The public has continually urged the government to run the invaders out, and OAS teams at the front

believe that only their continued presence has maintained the cease-fire.

OAS resolutions passed on 30 July call on both governments to submit their differences within two months to the peaceful settlement procedures outlined in the Pact of Bogota, urge each government to try those responsible for crimes and violations of human rights, and recommend a census to help resolve migration problems. International agencies are requested to aid the tens of thousands of refugees and displaced persons victimized by the undeclared war. A separate declaration--an Argentine initiative--emphasized that territorial occupation is inadmissible and that immigrants must obey the laws of the countries where they reside. This addendum was the only clear indication of the foreign ministers' impatience with Salvadoran intransigence.

An arms race between the belligerents and probably throughout most of Central America will be difficult to restrain. El Salvador has made effective use of the time between the 18 July cease-fire and now to resupply 25X1 its military store. Most of its aircraft were lost in the hostilities, but El Salvador now has ten F5ls and three Corsairs on hand--more 25X1 than at the outbreak of the war--and has just received 17 tons of ammunition.

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